

Projections of Returns to be Filed in Fiscal Years 1991-1998

By Bonnie L. Nichols*

Fiscal year projections of the major types of returns provide a foundation for Internal Revenue Service (IRS) resource requirements and budget submissions to the Treasury, Office of Management and Budget, and Congress. The most recent IRS projections indicate that a total of 205.3 million returns will be filed in Fiscal Year (FY) 1991, an increase of 1.5 percent over the number of returns filed in FY 1990[1]. With the exception of 1992, yearly rates of growth in total filings are expected to decrease from 1.5 percent to 1.2 percent in 1998. Due to a planned program change that will eliminate the need by individuals to file requests for first and second extensions of time in which to file their tax returns (discussed below), a decline in total filings is expected in FY 1992. Since individual returns account for over half of all returns, much of the year-to-year growth in grand totals is attributable to them.

These projections are produced by using (1) econometric models that relate the number of returns filed to economic and demographic variables or observed time trends and (2) time-series models. The forecasting models are initially formulated on a calendar year basis and the fiscal year projections are then derived from calendar year estimates (see the section on Data Sources and Limitations). Additionally, the projections are adjusted to reflect recent administrative, regulatory, and legislative changes, but they do not reflect such changes if they are under consideration.

Total Projected Returns

As shown in Table 1, Projection of the Number of Returns to be Filed or to be filed with the Internal Revenue Service, FY 1989-1998, the Grand Total is the sum of the "Primary total" and "Supplemental documents."

Primary returns are those that account for the majority of total filings and historically have generated the majority of the IRS document processing workload. The high volume return types within the primary category include

individual, corporation, and employment tax returns. Of the 199.6 million returns filed in 1989, 189.3 million were designated as primary returns. Supplemental return documents are mainly composed of amended returns and requests for filing extensions from both individuals and corporations. These forms account for only 5 percent of total returns. Returns in both the primary and supplemental categories are processed by the IRS Master File System[2].

The number of information and withholding documents processed by the Service, such as interest and dividend statements and Forms W-2, Wage and Tax Statement, are not included in the returns counted or projected in this article because they are not processed by the IRS Master File System. These returns are large in number so that, if included, they would increase the total number of returns substantially. In 1990, over 1 billion information and withholding documents were processed by the Service.

Figure A presents the average annual percentage change for the major return types during the 1991-1998 projection period. Total returns are expected to increase by an average of 0.9 percent during this period. Projections for 1991 and the associated rates of change from 1990 to 1991 are presented in Figure B.

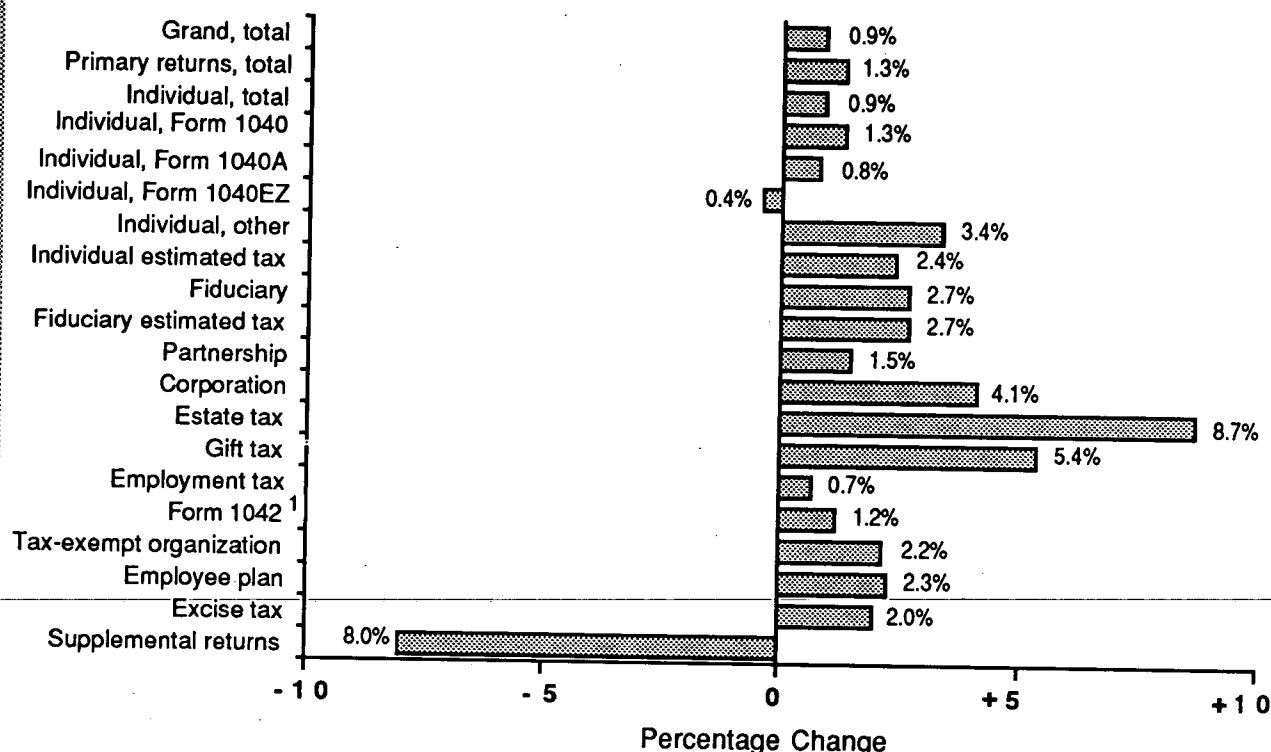
Individual Income Tax Returns

The total 1040 series (the sum of Forms 1040, 1040A, and 1040EZ) is expected to exceed 113 million returns in FY 1991, a growth of around 1.3 million over 1990. This total is projected to increase by 1.1 million returns in 1992 and then by another 0.9 million returns in 1993. These growth increases are substantially smaller than the prior year increases of 3.0 million and 2.2 million recorded in 1989 and 1990, respectively.

Several factors have contributed to slower individual growth rates. First, individual return volumes are closely related to changes in total employment. Compared to the

*Operations Research Analyst, Projections and Forecasting Group, Research Division

Figure A
Projected Average Annual Percentage Change in the Number
of Returns Filed, Fiscal Years 1991-1998



¹ Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

levels of the late 1980's, total employment is projected to grow more slowly in the 1990's. These slower growth rates will dampen individual return filings. Second, the increases in individual returns filed in the late 1980's were unprecedented as a result of additional filing requirements added by the Tax Reform Act of 1986 (TRA). Finally, the 1988 Technical and Miscellaneous Revenue Act (TAMRA) enables parents to report the "unearned income" of certain children, on the parents' return and in lieu of requiring these dependents to file their own returns.

In order to allow usage by more elderly people, the IRS intends to revise Form 1040A by expanding it to include entries for the following items: Individual Retirement Arrangement (IRA) distributions, pensions and annuities, social security benefits, credit for the elderly, estimated tax payments, and estimated tax penalty. Beginning in 1991, this planned revision will enable an estimated 4.5 million taxpayers to switch from the more complicated Form 1040. However, only 1.5 million taxpayers are expected to actually change forms.

Electronically filed returns indirectly distort the individual return series. The current IRS reporting system counts all individual refund returns filed electronically as if they were Form 1040 returns. A 1990 analysis of electronically filed returns revealed that 74 percent of them could have been filed on either Form 1040A or Form 1040EZ[3]. Figure C compares the number of Forms 1040, 1040A, 1040EZ, and total individual returns expected to be filed in 1991 and 1998, respectively.

Individual Declaration of Estimated Tax

Projections of Individual Declarations of Estimated Tax (Form 1040-ES) show growth rates that range from 2.6 percent in 1992 to 2.2 percent in 1998. Up to four of these forms can be filed annually by a taxpayer. Thus, they constitute a major return type category.

Fiduciary Income Tax Returns

Form 1041 is filed by a fiduciary to report the income of an estate or trust. Since 1988, the 1986 Tax Reform Act

Figure B.—Projections for Fiscal Year 1991

Type of return	1991 Projection (in thousands)	Percentage increase from 1990 ¹ (estimated)
Total returns	205,296	1.48
Primary returns, total	195,095	1.49
Individual income tax, total	113,684	1.30
Form 1040, 1040A, 1040EZ, total ..	113,381	1.30
Form 1040	74,745	0.79
Form 1040A	19,530	6.43
Form 1040EZ	19,106	-1.62
Other	303	3.77
Individual estimated tax	39,884	2.53
Fiduciary income tax	2,829	2.84
Fiduciary estimated tax	692	2.82
Partnership	1,636	-4.16
Corporation income tax	4,475	3.42
Estate tax	64	8.47
Gift tax	143	5.15
Employment tax	29,079	0.47
Form 1042 ²	20	(³)
Exempt organization	514	3.21
Employee plan	1,137	6.16
Excise tax	937	2.40
Supplemental documents, total	10,201	1.25
Form 1040X	1,224	-5.99
Form 4868	5,192	1.13
Form 2688	1,724	3.17
Form 1120X	38	-9.52
Form 7004	1,992	5.06
Form 1041A	31	3.33

¹ Percentages for 1990 were based on estimated final counts of returns because complete information was unavailable at the time this table was computed.

² Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

³ Less than 0.005 percent.

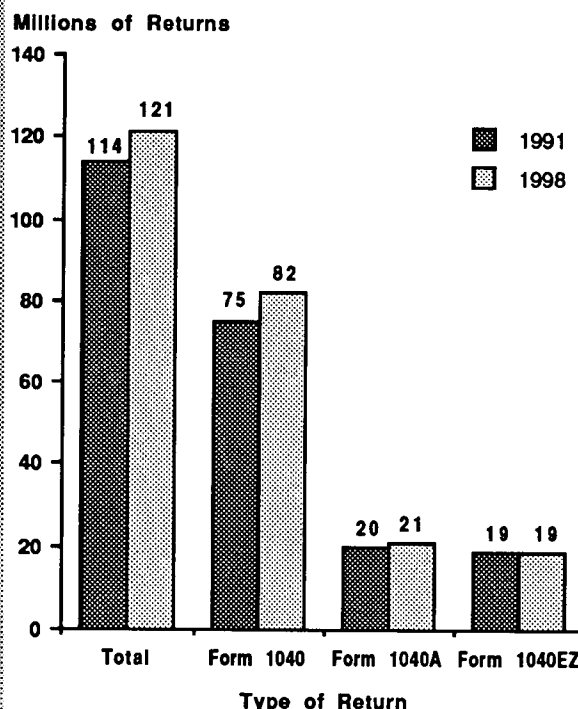
required all fiduciaries to file on a calendar year basis. Fiscal year projections have been adjusted for this change in accounting period. An estimated 2.8 million Form 1041 returns will be filed in Fiscal Year 1991 – an increase of 2.8 percent over 1990 filings. In 1993 through 1998, projected growth will average 2.7 percent.

Fiduciary Estimated Tax Returns

Since 1988, estates and trusts have been required to make estimated tax payments. Form 1041-ES, Estimated Income Tax for Fiduciaries, was developed for taxpayers with a tax liability of \$500 or more to compute and pay estimated taxes. As quarterly payments, up to four of these forms can be filed annually by a fiduciary. In 1989, 663,000 Forms 1041ES were filed. This volume is expected to grow at a rate of 2.9 percent in 1991, and follow the growth pattern of Forms 1041 in the 1993 through 1998 period.

Partnerships

U.S. Partnership Return of Income, Form 1065, is used to report income, deductions, credits, and losses from the operation of a partnership. The purpose of this return is to show each partner's distributive share of income to be reported on the individual (or other) income tax return. Historically, partnerships have been linked to "tax shelter" activity. During the 1978-82 period, peaks in abusive tax

Figure C
Individual Income Tax Returns by
Type, Fiscal Years 1991-1998

shelter practice activities resulted in increases in partnership return filings. The Tax Reform Act of 1986 eliminated the tax incentives for abusive tax shelter activity and Form 1065 filings subsequently exhibited a downward trend. In 1991, filings of partnership returns are expected to fall by 4 percent to 1.6 million forms.

Corporation Income Tax Returns

Corporation income tax returns are the aggregate of Forms 1120 (U.S. Corporation Income Tax Return), 1120-A (U.S. Short-Form Corporation Income Tax Return), and the various forms filed by real estate investment trusts, insurance and investment companies, and others. The corporation category also includes tax returns filed by "S Corporations" (Form 1120S, U.S. Income Tax Return for an S Corporation) that are taxed through shareholders [4].

The Tax Reform Act of 1986 lowered individual tax rates below the top marginal rates for corporations. Because S Corporation shareholders are taxed at these lower individual rates, many qualifying regular corporations shifted to the S Corporation form and fewer regular Forms 1120 were filed as a result. However, most of this impact

was probably completed by 1989. Future years should show normal growth for each of these corporate return types.

Overall, filings of corporation returns increased by 4 percent in 1989 and an estimated 3 percent in 1990. A projected 4.5 million corporation returns will be filed in FY 1991.

Estate and Gift Tax Returns

Gift tax returns (Form 709) increased 17 percent in 1989. This unusual growth is attributable to returns filed in the IRS Detroit District Office. In 1988, the State of Michigan instituted the Michigan Educational Trust System (METS). METS permits parents to contribute to a trust fund that is designated for future educational expenses of State-supported schools. Participants receive State and local tax deductions as well as interest exemption from Federal income taxes. Trust owners are required to file Form 709 even if the trust is valued below the \$10,000 exclusion threshold.

Estate tax returns (Form 706) are expected to grow at rates of 8.5 percent in 1991 and 8.7 percent in 1998. FY 1991 filings of estate tax returns are projected at 64,000 forms.

Employment Tax Returns

Employment tax returns consist of Employer's Annual Federal Unemployment Tax Return, Employer's Annual/Quarterly Federal Tax Return, Employer's Quarterly Tax Return for Household Employees, and Employer's Annual Railroad Tax Return. Projections for the forecast period 1991-1998 reflect year-to-year increases that average 0.7 percent per year.

Form 1042

Form 1042 is an annual withholding tax return filed by foreign "persons" with income from U.S. sources. Form 1042 returns are expected to increase by an average of 1.2 percent between 1991 and 1998.

Tax Exempt Organizations

A host of tax-exempt entities, including public charities, farmers' cooperative associations, private foundations, and "other" exempt organizations, are included in the exempt organization category of returns. In 1990, Form 990EZ was introduced for organizations with total assets of less than \$250,000 and receipts of \$25,000 to \$100,000. Form 990EZ filings are projected at ap-

proximately 42,000 in 1991. Total exempt organization returns are expected to grow at an average annual rate of 2.2 percent between 1991 and 1998.

Employee Plan Returns

Significant changes have occurred in employee plan filing requirements. Starting in Tax Year 1989, employers holding gross pension plan assets of less than \$100,000 are no longer required to file. In addition, Forms 5500C and 5500R are now combined into the single Form 5500C/R. Employee plan returns are expected to grow at an average rate of 2.3 percent over the forecast horizon.

Excise Tax Returns

Both TRA and the Revenue Act of 1987 had an impact on the predicted volume of Form 720 returns to be filed. One provision of the 1986 tax reform requires that the refiner (or first importer) of gasoline pay the gasoline tax—instead of the wholesaler. Also, under the tax reform provision (as amended by the Revenue Act of 1987), wholesalers of diesel fuel must pay the corresponding excise tax—instead of the retailers.

In addition, a provision of the Revenue Act of 1987 specifies that all partnerships and S Corporations electing to maintain a fiscal year reporting period must make certain required payments. These payments are currently made using Form 720. However, starting January 1991, a new form (Form 8752) will be used for this purpose. The Form 8752 projections are subsumed within the Form 720 estimates in Table 1.

The net result of these changes is a 34,000 decrease in the number of Forms 720 filed in FY 1990.

Supplemental Documents

Supplemental documents are composed primarily of amended returns and requests for filing extensions. As discussed above, a major change will soon affect the number of supplemental documents filed. In Calendar Year 1992, a new Automated Processing of Extensions (APEX) system will drastically alter processing of extensions of time to file individual income tax returns. This new system will eliminate Forms 4868 and 2688 and substitute a post-filing analysis of each taxpayer's account to determine if extension criteria have been met. Thus, projections of these two forms for FY 1992 have been significantly reduced to reflect this change and projections of them are eliminated entirely for FY 1993 and beyond. As a result, the average annual change of supplemental documents is expected to contract by 8 percent

between 1991 and 1998 (see Figure A).

DATA SOURCES AND LIMITATIONS

The number of returns filed represents returns processed at IRS service centers and posted to the Master File system during a fiscal year[5]. The 1990 values are estimated from partial year filing results through the end of June.

To illustrate the general forecasting process, projections for the combined total of Forms 1040, 1040A, and 1040EZ returns were developed based on a multiple regression relating total 1040 returns to total employment; an interaction variable involving both total employment and employed married women with husbands present (used as a proxy for potential joint filers); pension beneficiaries and annuitants; and "dummy" variables to account for the effects of law changes[6]. The historical base period for this regression was 1952-1990 with 1990 estimated on the basis of returns filed through June 1990.

Fiscal year projections are derived from calendar year estimates by one of four general methods. The method used most frequently employs the Census Bureau's X-11Q Seasonal Adjustment Program[7]. The method used second most frequently is to compute a ratio based on the quarterly filing experience of one or more historical years. The third method (used in instances where filing trends are not well defined) is based on assumed relationships between the number of returns and various filing patterns. The fourth method is a variation of the X-11Q approach in which the seasonal factors are subsequently trended.

NOTES AND REFERENCES

[1] All statistics are for the year in which the tax returns

were processed by the Internal Revenue Service, stated on a fiscal year (i.e., October through September) basis, unless otherwise noted. Final actual counts for all of FY 1990 were incomplete at the time this article was written (see the Data Sources and Limitations section). For complete counts, see U.S. Department of Treasury, Internal Revenue Service, 1990 *Annual Report, Commissioner and Chief Counsel, Internal Revenue Service, Fiscal Year 1990*, 1991 (in preparation).

- [2] The IRS Master File system includes the Individual Master File (IMF), the Business Master File (BMF), and the Employee Plans Master File (EPMF).
- [3] Electronically filed individual returns grew to nearly 4.2 million in 1990, and are projected to rise to 6.2 million in 1991. Despite the distortion that is being created in the individual return volumes by type, the actual and projected numbers are not adjusted to take into account electronic filing. Recommendations have been made to change the official reporting system to include these returns.
- [4] An S Corporation is a company with no more than 35 shareholders (most of whom are individuals) electing to be taxed at the shareholder level.
- [5] U.S. Department of the Treasury, Internal Revenue Service, 1990 *Annual Report, op. cit.*
- [6] Projections of total employment, employed married women with husbands present, and pension beneficiaries and annuitants were made by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [7] U.S. Department of Commerce, Bureau of the Census, "The X-11 Variant of the Census Method II Seasonal Adjustment Program," *Technical Paper No. 15* (1967 revision).

Projections of Tax Return Filings, 1991-1998

Table 1.—Number of Returns Filed or to be Filed with the Internal Revenue Service, Fiscal Years 1989–1998

[Number of returns are in thousands]

Type of return	Actual	Estimated	Projected							
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total returns¹	199,567	202,299	205,296	201,199	203,644	206,461	209,655	212,648	215,393	218,058
Primary returns, total	189,307	192,224	195,095	197,743	200,242	202,987	206,101	209,010	211,667	214,241
Individual income tax, total	110,253	112,222 ²	113,684	114,803	115,717	116,803	118,228	119,455	120,418	121,270
Forms 1040, 1040A, 1040EZ total	109,995	111,930 ²	113,381	114,493	115,400	116,475	117,885	119,098	120,049	120,887
Form 1040	71,787	74,160	74,745	75,897	76,848	77,620	78,943	80,099	81,000	81,605
Form 1040A	18,720	18,350	19,530	19,645	19,753	20,100	20,300	20,476	20,644	20,719
Form 1040EZ	19,488	19,420	19,106	18,951	18,799	18,755	18,643	18,524	18,405	18,563
Other ³	257	292 ²	303	310	317	329	343	357	369	383
Individual estimated tax	37,591	38,901 ²	39,884	40,904	41,927	42,949	43,972	44,994	46,017	47,040
Fiduciary income tax ⁴	2,625	2,751	2,829	2,903	2,982	3,063	3,145	3,230	3,316	3,404
Fiduciary estimated tax	663	673	692	711	730	750	770	790	812	833
Partnership	1,788	1,707	1,636	1,652	1,680	1,709	1,736	1,763	1,790	1,817
Corporation income tax ⁵	4,208	4,327 ²	4,475	4,627	4,788	4,977	5,195	5,428	5,673	5,938
Estate tax	55	59 ²	64	70	76	83	90	98	107	116
Gift tax	121	136 ²	143	150	157	167	176	186	196	207
Employment tax ⁶	28,911	28,943	29,079	29,243	29,438	29,679	29,926	30,148	30,367	30,591
Form 1042 ⁷	19	20	20	20	20	20	21	21	21	21
Tax-exempt organization ⁸	490	498	514	529	542	554	565	576	587	598
Employee plan ⁹	1,633	1,071	1,137	1,178	1,210	1,237	1,262	1,286	1,310	1,332
Excise tax ¹⁰	949	915	937	955	974	995	1,015	1,034	1,053	1,073
Supplemental documents, total	10,260	10,075	10,201	3,456	3,402	3,475	3,554	3,638	3,762	3,817
Form 1040X	1,447	1,302	1,224	1,170	1,127	1,093	1,065	1,041	1,020	1,003
Form 4868	5,155	5,134	5,192	4 ¹¹	—	—	—	—	—	—
Form 2688	1,684	1,671	1,724	115 ¹¹	—	—	—	—	—	—
Form 1120X	52	42	38	37	36	35	35	34	33	32
Form 7004	1,891	1,896	1,992	2,099	2,206	2,313	2,421	2,528	2,636	2,745
Form 1041A	29	30	31	32	33	34	34	35	36	37

¹ Excluded from all totals are the following "Non-Master File" returns: Form CT-2, 941M, 990BL, and 1120-IC-DISC. Also excluded are withholding and information documents, including Forms such as W-2 and the 1099 series and related forms.

² Estimate, including that for some corporations, is based on returns processed through part of 1990. The actual number filed in FY 1990 was unavailable when this table was compiled.

³ Includes Forms 1040NR, 1040PR, 1040SS, and 1040C; Form 1040X is included under "Supplemental documents," below.

⁴ Includes Forms 1041 and 1041S; Form 1041A is included under "Supplemental documents," below.

⁵ Includes Forms 1120, 1120A, 1120F, 1120H, 1120L, 1120POL, 1120S, 1120DF, 1120FSC, 1120PC, 1120REIT, and 1120RIC; Form 1120X is included under "Supplemental documents," below.

⁶ Includes Forms 940, 940EZ, 940PR, 941, 941E, 941PR, 941SS, 942, 942PR, 943, 943PR, and CT-1.

⁷ Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

⁸ Includes Forms 990, 990C, 990PF, 990T, 4720, 5227, and (starting 1990) 990EZ.

⁹ Includes Forms 5500, 5500C, 5500EZ and 5500R.

¹⁰ Includes Forms 11C, 720, 730, 2290, and (starting Calendar Year 1991) 8752; excludes Forms 11 and 5000.24 which are filed with the Bureau of Alcohol, Tobacco and Firearms, U.S. Department of the Treasury, instead of with the Internal Revenue Service.

¹¹ Forms 4868 and 2688 are to be discontinued in Calendar Year 1992. The return volumes shown for Fiscal Year 1992 reflect estimates for October through December 1991.